



**Texas Society of  
CPA Certified Public Accountants**

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December 19, 2011

Office of the Secretary  
PCAOB  
1666 K Street, N.W.  
Washington, D.C. 20006-2803

*RE: Improving the Transparency of Audits: Proposed Amendments to PCAOB Auditing Standards and Form 2*

To Whom It May Concern:

One of the expressed goals of the Texas Society of Certified Public Accountants (TSCPA) is to speak on behalf of its members when such action is in the best interest of its members and serves the cause of Certified Public Accountants in Texas, as well as the public interest. The TSCPA has established a Professional Standards Committee (PSC) to represent those interests on accounting and auditing matters and the views expressed herein are written on behalf of the committee. The PSC has been authorized by the Texas Society of CPAs' Board of Directors to submit comments on matters of interest to the PSC's membership. The views expressed in this letter have not been approved by the Texas Society of CPAs' Board of Directors or Executive Board and, therefore, should not be construed as representing the views or policy of the Texas Society of CPAs.

In our discussion of the above referenced exposure draft (ED), we considered each of the 35 questions posed by the PCAOB. Our response to each question is indicated in the body of our letter. However, prior to sharing our answers to the questions, we have some general comments for the Board's consideration.

We believe this ED has many flaws in both the basis for its issuance and the guidance it proposes. The justification for this document seems to come from the views of the Council of Institutional Investors and inconclusive research provided by the academic community. The focus of the document seems to be on rectifying the inadequacies of those in charge of audit engagements by identifying them and publicizing the perception of their inappropriate performance. We believe this is a very poor basis for the development of an auditing standard!

We are certainly not so naïve as to believe that all audits are performed with the ultimate amount of competence on the part of every audit practitioner. However, this ED would lead a reader to believe that a majority of those audit partners in charge of audit engagements are incompetent, lazy, and/or unconcerned with their professional responsibilities.

We find this very hard to believe in light of the precautions that are currently in place in this profession to head off such inadequacies. We have established Codes of Professional Conduct for CPAs at both the national and state levels. We have peer review programs that are designed to identify the sub-standard performance in attestation engagements and implement steps designed to rectify such deficiencies. We have professional standards committees at both the national and state levels that are

focused on ethics and the ethical responsibilities of practitioners. Public accounting firms are required to develop quality control policies and procedures to which the firm's professional staff is required to comply. These firms are required to design these standards to "promote an internal culture based on the recognition that quality is essential in performing engagements and should establish policies and procedures to support that culture. Such policies and procedures should require the firm's leadership to assume ultimate responsibility of the firm's system of quality control." All of these efforts are designed to monitor performance and head off the issuance of unreliable information and the incompetent performance of professional engagements.

Our big question after reading and analyzing this proposed standard is, "Have all of those efforts failed to accomplish their objectives?" One could easily conclude upon reading this proposed standard that our profession has decided to outsource the performance and competence evaluation of individual public practitioners to investors and corporate boards. Such a decision has obvious ramifications that would invite chaos and the potential for untold legal problems.

One of the quotes from the Council of Institutional Investors that was used to justify the development of this ED is as follows:

"Armed with valuable information provided by the lead auditor's signature, investors and boards will demand skilled engagement partners. The Council consequently believes that enhanced focus on the performance of the lead auditor will motivate audit firms to strengthen the quality, expertise, and oversight of the engagement partners. By more explicitly tying the lead auditor's professional reputation to the audit quality, requiring engagement partners to sign the audit report will further result in better supervision of the audit team and the entire audit process."

We believe this quote raises a number of questions regarding the justification of the proposed standard. Are these investors and boards not currently demanding skilled engagement partners? What valuable information will the signature of the lead audit partner provide? Does the Council have information that indicates a lack of focus on the part of the lead audit partner in a significant number of audit engagements, or is this merely a convenient conclusion? How does it follow that enhanced focus on the part of a lead auditor will motivate audit firms to strengthen the quality, expertise, and oversight of the engagement partners? How will requiring engagement partners to sign the audit report, or disclosing engagement partners' names, further result in better supervision of the audit team and the entire audit process?

We find the statements in this quote to be nothing more than self-serving comments designed to justify a requirement that has no logical support. It seems to us that having the firm as the guarantor of the competence with which the engagement was performed would be far more valuable to investors and boards than the name of an individual auditor. Also, the proposed standard constantly implies that the signature of an individual auditor will make the firm more responsible. We strongly believe that the signature of the **firm** makes the **firm** as well as **the individuals who make up that firm** more responsible!

**Question 1: Would disclosure of the engagement partner's name in the audit report enhance investor protection? If so, how? If not, why not?**

We do not believe disclosure of the engagement partner's name in the audit report would enhance investor protection. See our initial comments.

**Question 2: Would disclosing the name of the engagement partner in the audit report increase the engagement partner's sense of accountability? If not, would requiring signature by the engagement partner increase the sense of accountability?**

We do not believe accountability is enhanced by either disclosing the partner's name or requiring the partner to sign the audit report. See our initial comments.

**Question 3: Does the proposed approach reflect the appropriate balance between the engagement partner's role in the audit and the firm's responsibility for the audit? Are there other approaches that the Board should consider?**

Performing an audit in accordance with PCAOB standards is the responsibility of both the engagement partner and the audit firm. The firm has the overall responsibility to stand behind its professional staff and support their efforts, as well as the responsibility to take appropriate actions when the performance of the professional staff is found to be inadequate.

**Question 4: Would the proposed disclosure clearly describe the engagement partner's responsibilities regarding the most recent reporting period's audit? If not, how could it be improved?**

The answer to this question depends on the knowledge of the person observing the disclosure. If we assume that the person reading this disclosure understands the concept of "an engagement partner" and knows what an audit is and what it entails, then the answer is yes, the proposed disclosure is clear. However, if the reader understands the concept of "an engagement partner" and is knowledgeable about an audit, why would the disclosure be necessary? On the contrary, if the reader didn't understand the concept of "an engagement partner" and was unfamiliar with an audit, then the disclosure would also be unnecessary. Thus, it appears to us that no matter what the situation, such a disclosure serves no real purpose.

**Question 5: Would the proposed disclosure clearly describe the engagement partner's responsibilities when the audit report is dual-dated? If not, how could it be improved?**

See answer to question 4. This disclosure also serves no useful purpose no matter who the recipient happens to be.

**Question 6: Would the proposed amendments to the auditing standards create particular security risks that warrant treating auditors differently from others involved in the financial reporting process?**

The current responsibilities of auditors create a security risk that warrants treating auditors differently from others involved in the financial reporting process. The proposed amendments merely serve to enhance that security risk beyond a reasonable limit. Also, whether appropriate or not, the

engagement partner is often seen as the sole "responsible" party. In such a case, how could security risk not be greater than others involved in the financial reporting process?

**Question 7: Would the proposed amendments to the auditing standards lead to an increase in private liability of the engagement partner?**

How could it possibly not lead to an increase in private liability? Upset investors and financial statement users currently begin their legal actions in an audit-related suit by bringing legal action against the audit firm and may or may not include the engagement partner. Under the proposed rules, the audit partner will always be named in the action, thus increasing his or her private liability. The ultimate impact on the auditor's guilt or innocence due to the proposed amendments would best be addressed by a qualified attorney.

**Question 8: What are the implications of the proposed disclosure rule for private liability under Section 10b?**

Like question 7, this question is best addressed by a qualified attorney.

**Question 9: Would the disclosure of the engagement partner's identity affect Section 11 liability? If so, what should the Board's approach be?**

We believe the Board should consider an approach whereby each accounting firm designates a contact person who is responsible for disseminating information to interested persons regarding the individuals involved in performing the engagement.

**Question 10: Would the disclosure of the engagement partner's identity have any other liability consequences (such as under state or foreign laws) that the Board should consider?**

We believe the Board should take the responsibility to research the answer to this question prior to continuing their pursuit of this proposed standard. This seems to be a question more related to the guidance in the standard rather than something that would be based on the input from those responding to the ED. Perhaps the Board should consult with qualified attorneys in gathering information on this issue.

**Question 11: Would a different formulation of the disclosure of the engagement partner ameliorate any effect on liability?**

Short of eliminating this proposal, we are hard pressed to suggest a formulation that would soften or decrease the likely effect on liability.

**Question 12: If the Board adopts the proposed requirement that audit reports disclose the name of the engagement partner, should the Board also require firms to identify the engagement partner with respect to each engagement that the firms are otherwise required to disclose in Form 2?**

Once you decide to require the disclosure, it doesn't seem to matter how often the disclosure is made.

**Question 13: If the Board does not adopt the proposed requirement that audit reports disclose the name of the engagement partner, should the Board nonetheless require firms to identify the engagement partner with respect to each engagement that the firms are otherwise required to disclose in Form 2?**

If the Board does not adopt the proposed requirement, we strongly encourage no further change in the disclosure of the name of engagement partners.

**Question 14: Disclosure in the audit report and on Form 2 would provide notice of a change in engagement partner only after the most recent period's audit is completed. Would more timely information about auditor changes be more useful? Should the Board require the firm to file a special report on Form 3 whenever there is a change in engagement partners?**

We do not believe that more timely information about auditor changes would be more useful. Such information could easily be misinterpreted and is better left alone. We also are opposed to any special report on Form 3 regarding a change in engagement partner.

**Question 15: A change in engagement partner prior to the end of the rotation period could be information that investors may want to consider before the most recent period's audit is completed. Should the Board require the firm to file a special report on Form 3 when it replaces an engagement partner for reasons other than mandatory rotation to provide an explanation of the reasons for the change?**

We strongly disagree with such a disclosure. There are numerous reasons for a change in an engagement partner other than mandatory rotation. We feel the potential for misinterpretation by financial statement users of the reason for a change in engagement partner far outweighs any advantage that can result from such disclosure.

**Question 16: Is it sufficiently clear who the disclosure would apply to? If not, how could this be made clear?**

We believe it is sufficiently clear as to whom the disclosure would apply.

**Question 17: Is it appropriate not to require disclosure of the individual who performed the EQR? If not, should disclosure of the engagement quality reviewer be required when the EQR is performed by an individual outside the accounting firm issuing the audit report or should the disclosure be required in all cases?**

We agree that it would be appropriate to not require disclosure of the individual who performed the EQR. The EQR represents an objective assessment of the work performed by the engagement team and does not constitute audit work on the client's financial information.

**Question 18: Is it appropriate not to require disclosure of the person that performed the Appendix K review?**

We believe it is appropriate not to require disclosure of the person who performed the Appendix K review.

**Question 19: Is it appropriate not to require disclosure of persons with specialized skill or knowledge in a particular field other than accounting and auditing not employed by the auditor or persons employed or engaged by the company who provided direct assistance to the auditor?**

We find no useful purpose being served by such disclosure, especially in light of the fact that such information is already addressed in AU Section 336, *Using the Work of a Specialist*.

**Question 20: Would disclosure of off-shoring arrangements (as defined in the release) or any other types or arrangements to perform audit procedures provide useful information to investors and other users of the audit report? If yes, what information about such arrangements should be disclosed?**

We do not believe disclosure of off-shoring arrangements is necessary. It is the same firm, just a different office. We can't imagine how disclosure of such a circumstance would be of benefit to users of the audit report.

**Question 21: Would disclosure in the audit report of other participants in the audit provide useful information to investors and other users of the audit report? Why or why not?**

We are not convinced that a significant benefit would result from such disclosures. There could be a benefit in multinational audits where investors and other users would have an opportunity to consider the quality of those other participants who actually performed the audit of the subsidiaries and/or branches of the entity.

**Question 22: Are the proposed requirements sufficiently clear and appropriate with respect to identifying other participants in the audit? If not, how should the proposed requirements be revised?**

We have a significant problem with this proposed requirement due to the lack of clarification that surrounds the 3% threshold and what is included in the computation of total hours. Do the total hours include the hours spent by a specialist who is also not required to be disclosed in the report? The proposed amendment does not require the disclosure of specialists or internal auditors. Does this mean that their hours should be excluded from the classification (other Participants, all individually less than 3% of total audit hours) found in Appendix C, page C-9 table? The current audit report is normally composed of three or four separate paragraphs. It appears to us that the report loses its relevant focus when an entire paragraph is included to mention the name of another firm when only one or two other participating firm's total hours only account for 3% of the total hours.

**Question 23: Are the proposed requirements sufficiently clear as to when the name of a public accounting firm or a person would be required to be named in the audit report? Is it appropriate that the name of the firm or person that is disclosed is based on whom the auditor has the contractual relationship?**

The proposed requirements are clear and it appears appropriate that the name of the firm or person that is disclosed is based on whom the auditor has the contractual relationship.

**Question 24: Would disclosure in the audit report of other participants in the audit have an impact on the ability of independent public accounting firms to compete in the marketplace? If so, how would the proposed requirement impact a firm's ability to compete in the marketplace?**

We believe such disclosure would have an impact on a firm's ability to compete in the marketplace. This disclosure could draw the client's attention to the fact that they are paying audit fees based on a variety of billing rates from individual participants which may be based on geographical economic conditions.

**Question 25: Are there any challenges in implementing a requirement regarding the disclosure of other participants in the audit? If so, what are the challenges and how can the Board address them in the requirements?**

We find the new rule to be confusing to the financial statement users as it is fairly common knowledge that under the current rule, mentioning "other auditors" indicates a segregation of responsibility. It is misleading when the proposed amendment only requires the disclosure of total hours, but not the actual work and level of personnel who are involved in the audit. While disclosure of the hours contributed by other participants may benefit the financial statement users, it is not as useful when the users don't know the composition of those hours from staff level personnel to engagement partner hours. It apparently is different when 19% of the hours used by other participating firms is from an entry level staff member or is from an experienced manager. However, this kind of differentiation in disclosure would be cumbersome and would fall far short of satisfying the cost/benefit analysis. Also, the fact that different firms have different staff structures makes such disclosures even more difficult and potentially more confusing. Thus, the challenges are significant and would be most difficult, if not impossible, to overcome.

**Question 26: Is the percentage of the total hours in the most recent period's audit, excluding EQR and Appendix K review, a reasonable measure of the extent of other participants' participation in the audit? If not, what other alternatives would provide meaningful information about the extent of participation in the audit of other participants?**

If such a disclosure is required, the percentage of hours incurred by other participants may have some relevance. However, this factor alone should not form the basis to determine their involvement. Many factors can have an impact on the hours incurred and it is generally not practical for the signing firm to be involved in monitoring the hours incurred by other participating firms. In cases where other participating firms perform the audit of a subsidiary, the signing firm has little control over the actual hours spent auditing the subsidiary. A more meaningful disclosure in such situations would require an indication of the subsidiary, division, or component that was audited by the other participating firm(s). We believe users assess and evaluate financial statements and the audits of those financial statements in many different ways based on their particular needs. We further believe that the disclosure of the hours spent by the signing audit firm or any other participating firms would not provide meaningful information to users in assessing the financial statements or the audit. Further, disclosing a

quantitative component like hours applied or percentage of total hours could easily lead to unwarranted conclusions on the part of those users.

**Question 27: What challenges, if any, would requiring the percentage of audit hours as the measure of the other participants' participation present?**

We believe many situations where other participating auditors are involved in the engagement are negotiated on a fixed fee basis. Therefore, the hours spent by other participants are most difficult to assess in terms of accuracy or relevance. In such situations, the signing firm would be required to assess the accuracy, relevance, and completeness of the time recorded by the other participant. In situations where the other participants are paid directly by the client based on a pre-determined fee arrangement, the burden on the signing firm to assess the reasonableness and accuracy of the hours incurred would create a significant burden. We feel the challenges, and the potential for erroneous data, in this area far outweigh any benefits that might accrue to the users.

**Question 28: Should the Board require discussion of the nature of the work performed by the other participants in the audit in addition to the extent of participation as part of the disclosure? If so, what should be the scope of such additional disclosure?**

We believe including such a discussion could open the door to even greater problems than the percentage of audit hours would cause. The fact that financial statement users vary considerably in their sophistication, experience, and desires would cause such a discussion to lead to greater frustration and anxiety on the part of those users. Such a discussion would lead to more concerns, a greater number of questions, and could easily be misinterpreted based on the way the nature of the work was described. This type of discussion will definitely raise many more questions than it answers. We find the guidance in AU 543 to be sufficient in this area as such information can be disclosed to the PCAOB as part of their inspection and reporting process, but modification of the audit report to include hours or the nature of work performed by other participants is not needed!

**Question 29: Would the proposed disclosure of the percentage of hours attributable to the work performed subsequent to the original report date in situations in which an audit report is dual-dated be useful to users of the audit report?**

We hold to our view that the disclosure of hours incurred by other participants would not be useful in any form. However, if disclosure of hours incurred by other participants is required, disclosure of the percentage of hours attributable to the work performed subsequent to the original report date would be necessary in order to keep the original disclosure relevant to the final dual-dated report. The guidance in AU 543 is sufficient.

**Question 30: Is the example disclosure in the proposed amendments helpful? Would additional examples be helpful? If so, what kind?**

Again, the example is sufficient, but we are not in favor of making this disclosure a requirement.



**Question 31: Should disclosure of the names of all other participants in the audit be required, or should the Board only require disclosing the names of those whose participation is 3% or greater? Would another threshold be more appropriate?**

We continue to oppose the disclosure of the names of individuals participating in the audit. We further believe that the 3% parameter, if disclosure ultimately comes to pass, is a bit low. We're not sure what percentage is appropriate, but the general conception of materiality may find 3% to be a very small percentage to require disclosure.

**Question 32: Is the proposed manner in which other participants in the audit whose individual extent of participation is less than 3% of total hours would be aggregated appropriate?**

We believe this disclosure is even more inappropriate. What useful purpose would such disclosure serve? We can't think of any such purpose.

**Question 33: Are the requirements to disclose the name and country of headquarters office location of the referred-to firm sufficiently clear and appropriate?**

The disclosure seems clear and appropriate.

**Question 34: Are there any challenges associated with removing the requirement to obtain express permission of the referred-to firm for disclosing its name in the audit report? If so, what are the challenges and how could they be overcome?**

We are not aware of any challenges that might arise. However, common courtesy would seem to require notification that such disclosure is being made.

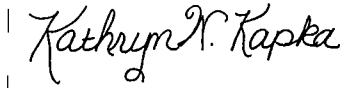
**Question 35: In situations in which the audit report discloses both the referred-to firm and other participants in the audit, would using different disclosure metrics (e.g., revenue of the referred-to firm and percentage of the total hours in the most recent period's audit for the other firms and persons) create confusion? If so, what should the disclosure requirements be in such situations?**

These disclosures, along with the other disclosures required by this guidance, are going to result in a great deal of confusion. The interesting issue regarding that confusion is the ultimate breadth of confusion that will result if these disclosures become a requirement. We do not believe the Board or any responding practice unit or organization has any idea as to the breadth of the confusion that will result. We are convinced that these disclosures will generate many questions and concerns on the part of users and lead to numerous misunderstandings that will negatively impact the decisions users make as a result of their interpretation of these disclosures.

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We appreciate the opportunity to provide input into the standard-setting process.

Sincerely,

A handwritten signature in cursive script that reads "Kathryn W. Kapka". The signature is written in black ink and is positioned to the right of a vertical line.

Kathryn W. Kapka, CPA, CIA, CGAP  
Chair, Professional Standards Committee  
Texas Society of Certified Public Accountants